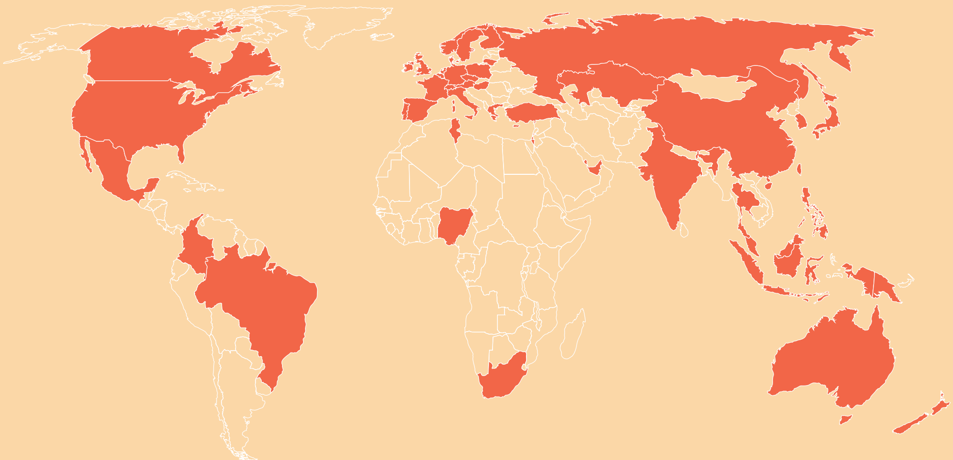
ISDA

Safe,
Efficient
Markets

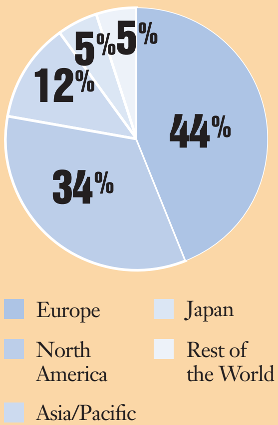
ISDA AT A GLANCE

ISDA members are located in 55 countries on six continents

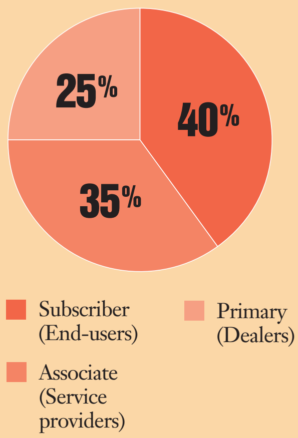


ISDA's membership reflects the scope and breadth of the OTC derivatives markets

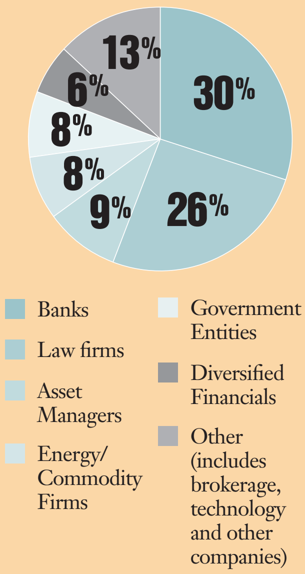
BY GEOGRAPHY



BY CATEGORY



BY SEGMENT



Since its founding in 1985, the International Swaps and Derivatives Association has focused on making the over-the-counter (OTC) derivatives markets safe and efficient.

Today, ISDA is one of the largest and most global financial trade associations in the world. Its more than 800 members from 55 countries are working constructively with policymakers across the globe to build robust, stable financial markets and a strong financial regulatory framework.

ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of the Association and the OTC derivatives markets toward these goals.

The ISDA Master Agreement and related materials are widely used by market participants to document their OTC derivatives transactions. These and related initiatives in the areas of netting and collateral have enabled firms to significantly reduce their credit and legal risk.

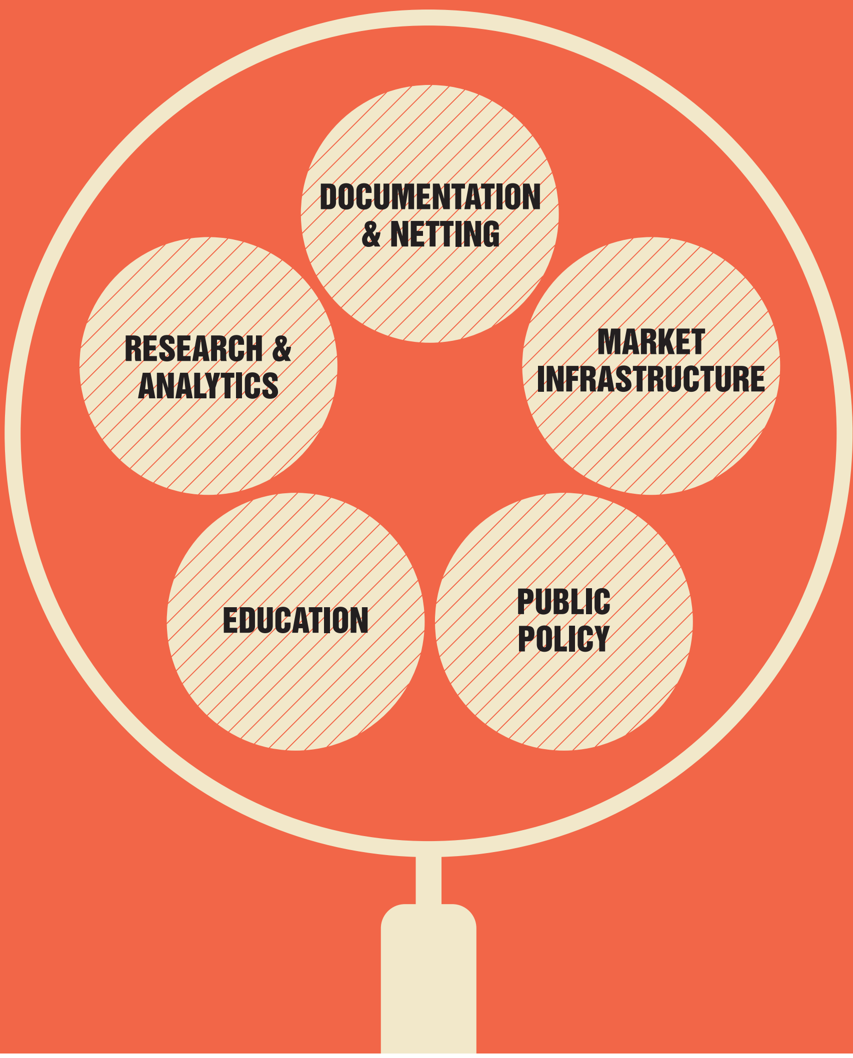
According to the Bank for International Settlements, close-out netting reduces OTC derivatives credit exposure to about 0.6% of the underlying notional amount. ISDA studies further estimate that about two-thirds of the remaining exposure is collateralized.

Documentation and netting are one of the Association's five core competencies. The others are market infrastructure, research and analytics, public policy and education. The Association is a leader in on-going efforts to develop a strong robust, operational infrastructure, and in promoting sound risk management practices and processes. ISDA also works with regulators and legislators around the world to advance the understanding and treatment of derivatives and risk management from public policy perspectives.

AFTER NETTING, OTC DERIVATIVES CREDIT EXPOSURE IS 0.6% OF THE NOTIONAL AMOUNT OUTSTANDING. MOST OF THE REMAINING EXPOSURE IS COLLATERALIZED.

ISDA

CONSISTENT FOCUS



THOUSANDS OF COMPANIES

USE

OTC DERIVATIVES

NEARLY TWO-THIRDS OF THE TOP 6,000 COMPANIES IN THE OECD COUNTRIES USE OTC DERIVATIVES TO MANAGE THEIR RISKS.

Virtually every large company in the world uses OTC derivatives to manage the risks that are part of their everyday business activities. This includes airlines that need to hedge fuel costs, fund managers and manufacturers impacted by foreign currency exposures, and government entities faced with volatile interest rates.

It's not just global corporations that are affected by these risks. And it's not just large companies that use OTC derivatives to manage them. A survey of 7,300 non-financial firms around the world — representing over 80 percent of the global market capitalization of non-financial companies — revealed that over 60 percent use OTC derivatives.

KEY

FACTS

ABOUT OTC DERIVATIVES

5,500

OTC interest rate derivatives contracts (including swaps, caps, collars, floors and swaptions) are executed each day in over 20 currencies.

3,600

interest rate swaps are traded each day.

300,000

trades of US government and Eurodollar futures contracts occur every day. Corresponding OTC volume is 2% of that amount.

1,200

OTC US dollar interest rate swaps are traded daily. OTC euro interest rate swaps average just 830 trades per day.

<50%

of all OTC interest rate swap trades per day are standardized. The most liquid standardized swap trades about 200 times per day.

Most measurements of the size of the OTC derivatives market refer to the notional amount outstanding. This figure, which is quite large, can obscure some important facts about the market.

ISDA's work in documentation and netting, for example, reduces credit risk of OTC derivatives to about 0.6% of the notional amount outstanding. More than two-thirds of this remaining amount is secured by collateral.

Data sources: TriOptima's Global Interest Rate Trade Reporting Repository and DTCC's Trade Information Warehouse

THE OTC DERIVATIVES MARKETS ARE CHARACTERIZED BY RELATIVELY LOW TRADING VOLUMES, LARGE TRADE SIZES AND INSTITUTIONAL PARTICIPANTS.

$75 M

is the average size of a ten-year OTC US dollar interest rate swap. Comparable transactions in futures and securities markets are substantially smaller.

6,700

OTC credit default swaps trade daily. Of these, 4,900 are single-name reference entities and 1,800 are credit indices.

13

out of 3,000 CDS single-names trade 20 or more contracts per day.

99%

of single-name CDS contracts trade less than 20 contracts per day.

5

CDS indices make up 60% of the total daily CDS index trading volume.

Despite its apparent size, trading in the OTC derivatives markets is quite limited. Trading volume is well below that of other asset classes. The OTC derivatives market is characterized by relatively low volumes, large trade sizes (as expressed in notional terms) and a limited number of market participants.

As efforts continue to build an appropriate, effective regulatory framework for OTC derivatives, it's important that corporations continue to have access to these important risk management tools. This means that regulations need to be tailored to the particular dynamics of markets in order to ensure their continued liquidity and functioning.

REDUCING COUNTERPARTY CREDIT RISK

CLEARING AND TEAR-UPS HAVE REDUCED THE CDS MARKET BY OVER 75%.

ISDA and the industry are focused on reducing risk by encouraging greater use of central counterparty clearing facilities (CCPs) and by compressing or "tearing up" economically redundant trades.

These efforts are working. The size of the CDS market has been reduced by more than **75 percent** through a combination of clearing and compression. Over **40 percent** of the interest rate swaps market is now centrally cleared and its size has been significantly reduced through portfolio compression.

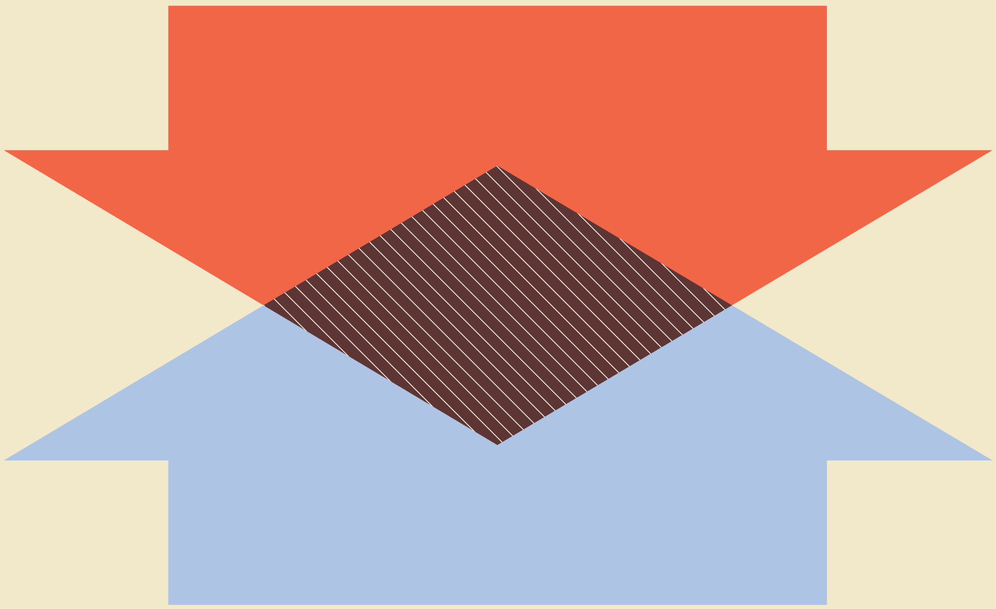
Further progress lies ahead. But it's important to recognize that not all derivatives can or should be cleared or torn up. Customized, bilateral trades remain important risk management tools that lie at the heart of the OTC derivatives business and the global economy.

ISDA believes it's vital that CCPs be safe from default. This means strong margin requirements, capital and other risk controls, and risk-based membership requirements.

ISDA helped to significantly enhance regulatory transparency by leading the effort to establish trade repositories for credit, interest rates and equity derivatives products. These repositories provide regulators with the data they need to monitor risk exposures by individual participants and the market as a whole.

As part of the Association's commitments to global supervisors, ISDA has delivered studies on the level of OTC derivatives market transparency. The Association also conducted a blind test among market participants on the liquidity, transparency and competitiveness of the "plain vanilla" US Dollar and Euro IRS markets. **The research showed that the IRS market is extremely liquid with excellent price transparency and competitiveness.**

TRADE REPOSITORIES HELP TO ENSURE THAT REGULATORS HAVE A CLEAR VIEW OF MARKET ACTIVITY AND EXPOSURES.

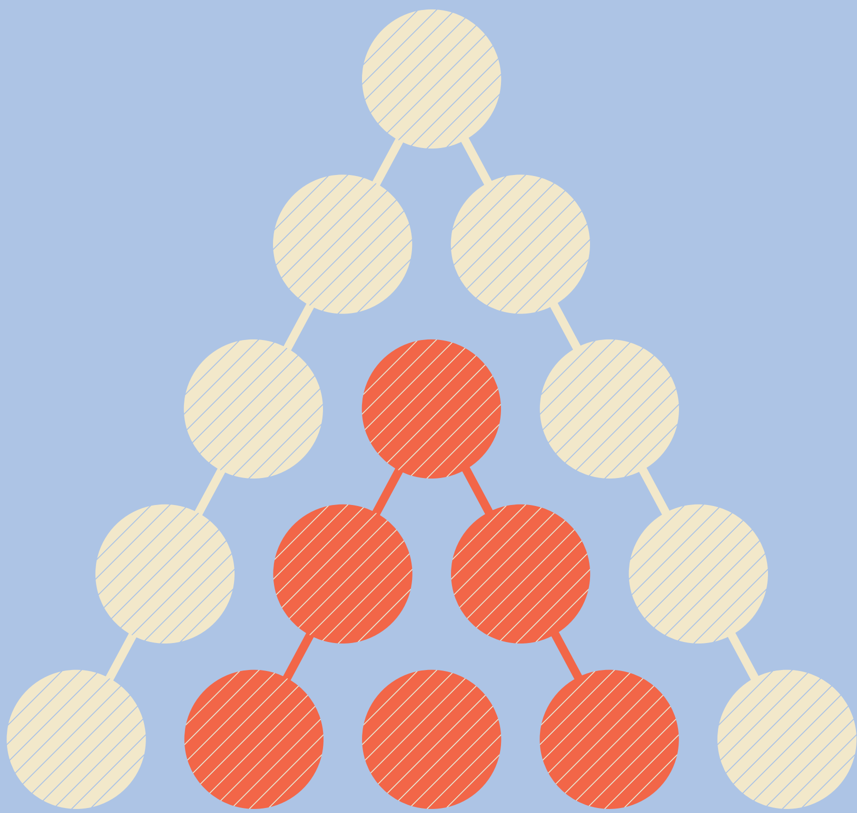


INCREASING

TRANSPARENCY

IMPROVING THE INDUSTRY'S OPERATIONAL

INFRASTRUCTURE



CONFIRMATION BACKLOGS HAVE BEEN VIRTUALLY ELIMINATED.

ISDA is working with a group of global supervisors to improve the infrastructure of the marketplace. Over the past several years, the industry has made significant progress in standardizing contracts to facilitate pricing, liquidity, clearing and compression. ISDA designed and implemented protocols (Big Bang and Small Bang) to foster industry acceptance and alignment on these changes. The Association formed Determinations Committees to decide on issues such as credit events and implemented an auction process to assist with trade settlement. These initiatives enabled the OTC derivatives markets to handle over 60 credit events to date with no market disruption.

ISDA and its members have also improved OTC derivatives processing, resulting in greater automation and reduced confirmation backlogs. According to recent survey data, 99 percent of eligible CDS transactions, and over 85 percent of eligible interest rate and equity transactions, are now confirmed electronically. There is now less than one business day's worth of aged confirmations outstanding for OTC interest rate, credit default and equity derivatives transactions.

ISDA® | Safe, Efficient Markets

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